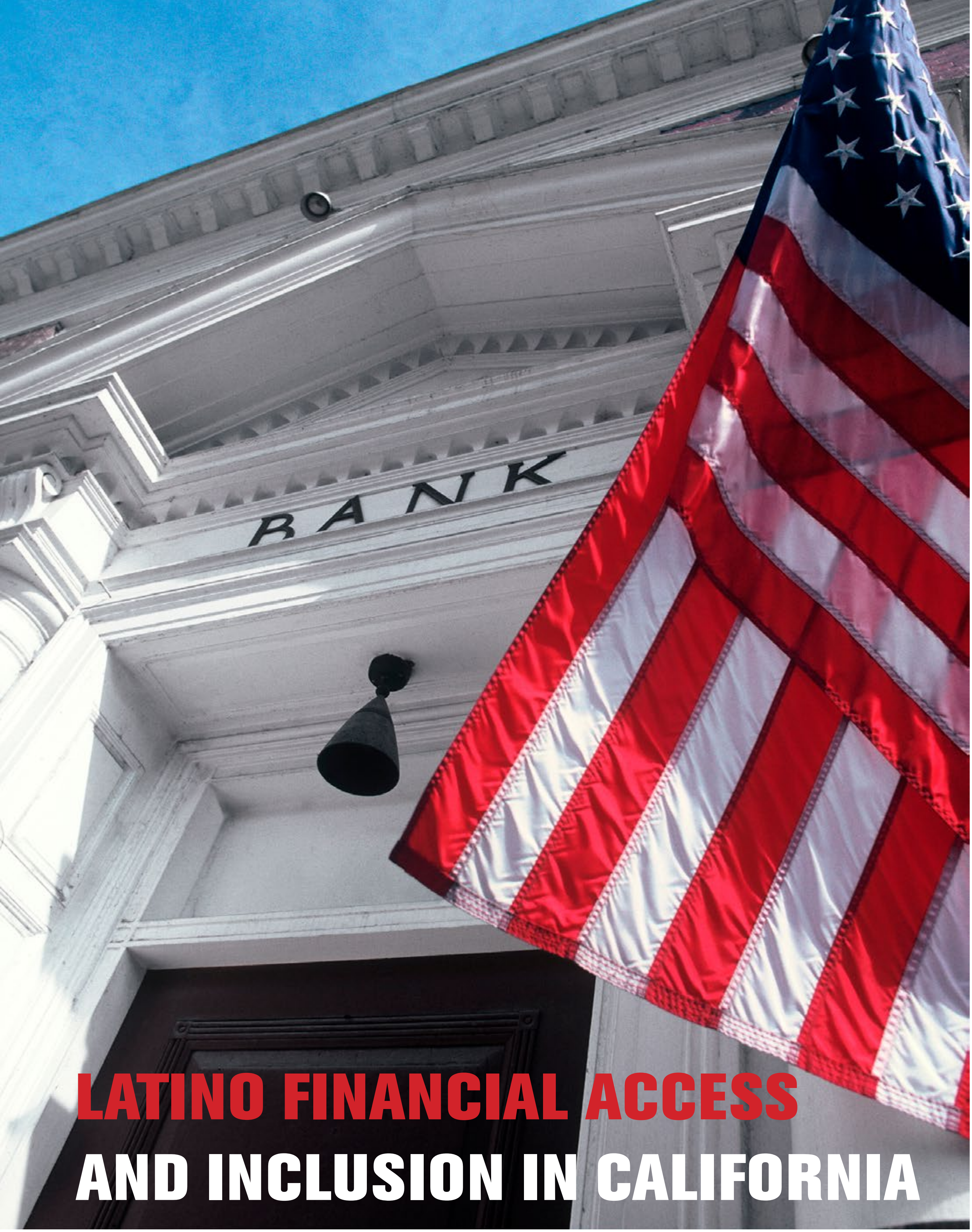

LATINO FINANCIAL ACCESS AND INCLUSION IN CALIFORNIA

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NATIONAL COUNCIL OF LA RAZA

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OFFICE OF RESEARCH, ADVOCACY & LEGISLATION

The National Council of La Raza (NCLR)—the largest national Hispanic civil rights and advocacy organization in the United States—works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations, NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas—assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families.

Founded in 1968, NCLR is a private, nonprofit, nonpartisan, tax-exempt organization headquartered in Washington, DC, serving all Hispanic subgroups in all regions of the country. It has regional offices in Chicago, Los Angeles, New York, Phoenix, and San Antonio and state operations throughout the nation.

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LATINO FINANCIAL ACCESS AND INCLUSION IN CALIFORNIA

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TODEC Legal Center
The Unity Council
Visionary Home Builders

Finally, NCLR wishes to thank the members of the Latino community who participated in this project for sharing their experiences in navigating the financial services industry. We are grateful for their participation; their contribution to this policy discussion is invaluable.

EXECUTIVE SUMMARY

To learn more about the ways by which the financial services industry is currently serving the Latino community in California and the extent to which they are financially engaged, NCLR launched a financial survey in 2012. The 55-question survey was designed to reveal specific financial tools the community used, perceptions held of financial institutions, and the ways in which technology was either fostering or blocking access to financial services. The survey was conducted through NCLR's California Affiliate Network, composed of community-based organizations (CBOs) serving the Latino community, and Progreso Financiero stores, an alternative financial service provider serving a largely Hispanic customer base. The survey was distributed by eight Affiliates and four Progreso Financiero locations throughout the state, representing the Bay Area, Central Valley, and Southern California, from January–April 2012. In total, over 1,000 Latinos completed the survey, the results of which are discussed in this report.

The NCLR California Latino Financial Access Survey findings reinforce much of what is known about those on the margins of the banking system while also contributing new information about the experiences, wants, and needs of those who are in the lowest income bracket, are unemployed, and/or are immigrants. To our knowledge, this survey is the first that explores the role of technology in the financial lives of low-income Latinos. The majority of survey participants had bank accounts and were actively saving in some capacity. This is notable given the relatively low incomes and high unemployment rates reported. Moreover, the survey suggests consumers are showing some discernment by actively shopping for financial products that meet their needs and considering such factors as convenience, price, or language access.

Unfortunately, the responses also indicate that few Hispanic consumers were able to satisfy all their needs at the same institution and were often forced to make tradeoffs. As a result, there remains a sizeable population that is vulnerable to financial isolation and in need of affordable, responsibly priced credit and quality information on which they can base decisions.

Summary of major conclusions:

The community is saving. Despite many finding it difficult to save in the down economy, the majority of those surveyed report putting at least some money away on a regular basis. Most used an account while others held funds in various ways—uncashed checks, prepaid cards, or funds held by a family member.

Alternative Financial Services are not reserved only for occasional emergencies. The Latinos surveyed who used AFS often cited convenience and pricing as reasons they would use these products or services rather than services through a bank. Respondents' routine use of AFS suggests they are either smoothing monthly income, in the case of credit products, or seeking transaction services not offered by their regular bank or credit union.

Citizenship is an asset. Naturalized foreign-born Latinos surveyed had higher levels of financial engagement than those who had not been naturalized, even when analyzing length of time spent in the U.S. The financial cost of naturalizing was identified as the major reason immigrants who were eligible to naturalize had not yet done so. Assisting greater numbers of immigrants to achieve citizenship could increase financial opportunities, but ironically many find the naturalization fees unaffordable.

Unemployed survey participants were the most financially vulnerable. The unemployed reported that they had difficulty meeting financial needs over the last year—more so than other groups in the survey—and had lower levels of saving. Many of the unemployed are at serious risk of dropping out of the banking system if they have not already done so.

Participants want financial advice, but they are not getting it. Traditional financial planning is out of reach for most participants, yet many cited financial guidance as a fundamental service they would like to see from their financial institution.

The appetite for technology exists but it is not the way to "bank the unbanked." Language access and targeted marketing would be more successful strategies to bring new bank customers in the door. People who expressed skepticism explicitly cited security concerns as a reason they were not using these platforms.

Good customer service matters. When asked to identify the factors most important in choosing where to conduct their banking, issues involving customer service were paramount, regardless of whether an individual held a bank account.

Latinos ages 18–25 were highly engaged with the financial mainstream. Not only did they own accounts at higher rates, but they placed less significance on factors the rest of the survey population identified, such as customer service or language, when making banking decisions. While younger Latinos experienced higher rates of account ownership, this trend was not sustained among older populations surveyed.

INTRODUCTION

The toll of the Great Recession on the national economy and individual households has been well-documented. Record-high foreclosure rates and persistent unemployment have drained personal savings and increased individuals' debt. While attitudes toward thriftiness and savings have shifted in a positive direction, many families struggle to stretch their income between paydays and rarely, if ever, have anything left over to save.[1] The impact of the economic downturn on Hispanic* households has been particularly acute. Hispanic unemployment hit a high of 13% in 2010.[2] Foreclosures and the drop in home values rocked household balance sheets, leading to a 66% decline in Hispanic median household wealth from 2005 to 2009.[3]

During the same time period the reputation and customer service ratings of banks and financial institutions plummeted.[4] Policymakers struggled to respond effectively to the magnitude of the financial problems facing working and middle-class Americans. Public frustration over unfair lending practices, foreclosures, bank fees, and policy missteps has become a mainstay of front page news.

It is against this tumultuous backdrop that NCLR set out to understand the attitudes, preferences and experiences low-income Hispanic families in California have with their financial institutions. According to the Federal Deposit Insurance Corporation (FDIC) National Survey of Unbanked and Underbanked Households, 20% of Latino households do not have a traditional bank account and as many as 28.6% are considered "underbanked," meaning they have an account but continue to seek out nonbanks for certain transactions.[5] The figure has been creeping upward over the last few years for all populations.

This disturbing trend runs counter to the efforts of many nonprofits, government agencies, and financial institutions to improve the financial security of low-income households through savings and asset ownership. Owning a basic checking or savings account at a bank or credit union is fundamental to improving economic stability and building tangible assets and a solid credit history. While this basic step may seem intuitive, many Hispanic families opt out of the traditional banking system for good reason. The FDIC survey reported that bank fees are the top reason people do not have accounts, while others point to minimum balance and identification requirements as other barriers to account ownership.[6] Indeed, consumers paid $29.5 billion in overdraft fees in one year.[7] Such fee assessments can be costly for families already struggling to make ends meet.

Despite these realities, operating outside the traditional banking system can also be expensive. One study estimated that households spend $800 a year on Alternative Financial Services (AFS).† Moreover, nearly one in four Americans now uses high-cost, often short-term credit such as payday loans, pawn shops, auto title loans, and others.[8] The use of costly financial alternatives may fulfill a short-term need, but it does not expand a borrower's financial capacity and can trap borrowers in a cycle of debt.

New efforts have emerged to connect so-called unbanked and underbanked individuals to affordable, "safe" accounts. One of the most well-known models, Bank On, brings together cities, financial institutions, and nonprofits to support account ownership. The FDIC Safe Accounts Pilot aims to

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* The terms "Hispanic" and "Latino" are used interchangeably by the US Census Bureau and throughout this document to refer to people of Mexican, Puerto Rican, Cuban, Central American, South American, Dominican, Spanish and other Hispanic descent; they may be of any race. Further, unless otherwise noted, estimates in this document do not include the 3.7 million residents of Puerto Rico.

† Alternative Financial Service (AFS) refers to any of the various financial services offered by providers that operate outside of federally insured banks and thrifts. See: Federal Deposit Insurance Corporation, *Alternative Financial Services: A Primer* (Washington, DC: FDIC, 2009). http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html

standardize a basic low-fee bank account accessible to those of modest means. Similarly, the Pew Safe Checking Project provides a user-friendly fee disclosure box that has been adopted by several major financial institutions. A myriad of other private and public efforts have focused on technology that allows banks to increase efficiency and lower costs, theoretically making accounts more accessible.

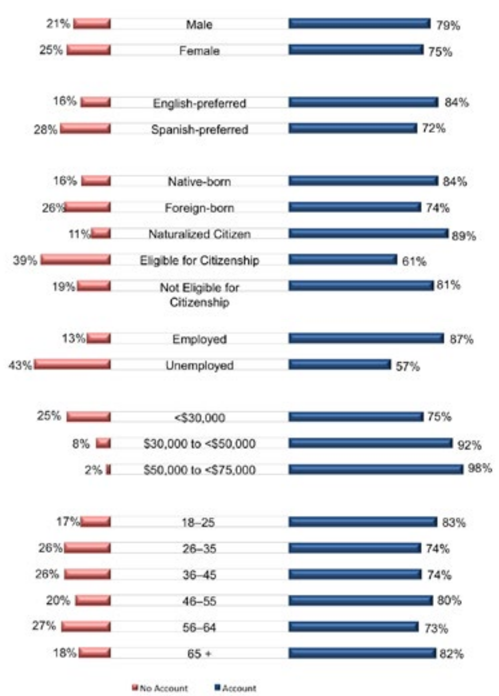
NCLR's California Latino Financial Access Survey sought to capture the attitudes and experiences of low-income Hispanics toward financial institutions, understand how and why Latinos were using certain financial providers, and document their experience and comfort level with banking technologies. The financial vulnerability that many families experienced over the last several years has asset-building stakeholders and policymakers considering how to help communities rebuild, how to assist their economic recovery, and how to better prepare families to withstand unexpected financial shocks in the future. This report provides fresh and timely insight into the banking practices of Hispanic consumers, discusses the implications for policymakers, advocates, and industry stakeholders, and shares practical policy and best practice recommendations.

CALIFORNIA LATINO FINANCIAL ACCESS SURVEY

Between January and April 2012, NCLR worked with eight NCLR Affiliates and four Progreso Financiero stores to survey more than 1,000 low-income Hispanic individuals across California.* NCLR sought to understand how Latino households were interacting with the financial services industry, the qualities and experiences that shaped their attitudes and decision-making, and the ways in which technology was either fostering or inhibiting access to financial services. The Affiliates that conducted the survey are prominent service providers in their communities. Their strong, existing relationships with the Latino families they serve positioned them well to collect deep and sensitive information. Similarly, Progreso Financiero enjoys a high level of trust from their customers, and interviewers were able to effectively engage the participants.

Generally, survey participants had similar incomes, lower rates of account ownership, and higher unemployment rates than California Latinos overall. The median income of participants surveyed is $25,000, compared to $20,875 for Latinos in the state.[9] In this survey, 21% of participants did not own either a checking or savings account, well above the 16.7% reported by FDIC for Latinos in California.[10] Hispanic unemployment in the state was 11.9%, compared to 17.2% of those surveyed.[11] While this survey does not consist of a random sample of low-income Hispanic individuals in California, our methodology allowed interviewers to direct 55 questions to individuals not easily reached by other data collection methods, such as online or phone surveys. As a result, the survey data provide a useful snapshot of some of California's most marginalized and disconnected Latino financial consumers.

Figure 1. Selected Survey Participant Demographics



* The NCLR Affiliate Network ("Affiliates") is composed of Hispanic-serving community-based organizations throughout the United States who are members of NCLR. Progreso Financiero is a financial service provider, offering small-dollar loans to a largely Hispanic customer base, operating in California and Texas.

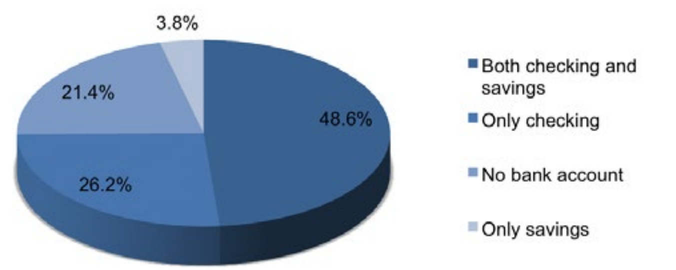
FINDINGS

In this section we review the findings in three key areas: Financial Engagement, Banking Experiences and Needs, and Technology.

Financial Engagement
The survey asked participants a series of questions to gauge their level of involvement with traditional banks and credit unions. Key questions included whether participants own accounts and what kind, how they paid for daily expenses and monthly bills, and the factors that kept them from participating in the banking system. The survey results show age, citizenship status, and unemployment contribute heavily to the scope and depth of survey respondents' interaction with mainstream banking.

Account Ownership and Use
Over three quarters of survey participants owned at least one transaction account, and a fair number saved regularly in some fashion. Of all participants who held an account, two-thirds (62%) held both a checking and savings account. More participants were saving than were not, though the method of saving varied based on account ownership.

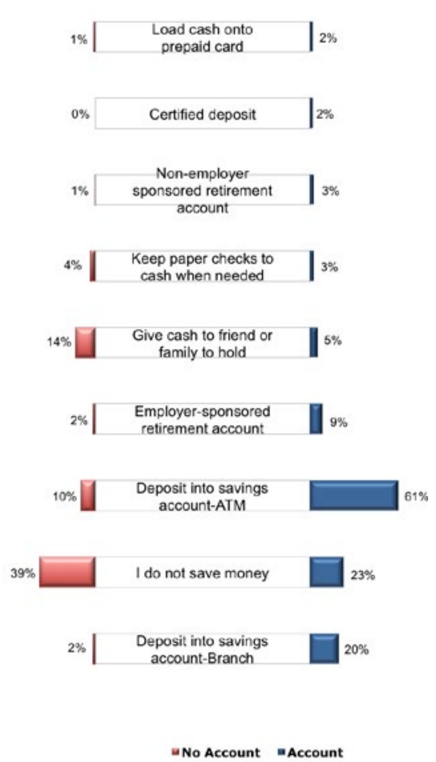
Figure 2. Account Ownership



The majority of survey participants were saving. However, those without a bank account were less likely to save than participants with an account.

Saving via a traditional account was the most popular means of saving for the nearly three-quarters (73%) of survey participants who report saving money. When comparing account holders to those without accounts, there is a clear difference in saving habits. Only 61% of those without an account reported saving, compared to a rate of 77% for account holders who saved primarily through traditional accounts. Those without accounts were more likely to save cash than to use financial products such as checks or prepaid cards.

Figure 3. Methods of Saving: Account Holders and Non-Account Holders



Survey respondents were tapping into a wide range of financial tools beyond those associated with accounts, such as checks or debit cards. Moreover, personal networks were an important financial tool.

Overall, survey participants have tried a number of financial tools from financial institutions and AFS. Over half of those surveyed have used a bank's credit card in the past 12 months. During the same time period, more than a third had visited a check casher and one-fifth of respondents used either a payday loan (17.2%) or a pawn shop (16.8%) to meet their financial needs.

Figure 4. Financial Products and Services Used in Past 12 Months	
Credit card from a bank	54.9%
Non-bank check casher	35.7%
Non-bank money order	31.3%
Prepaid cell phone	31.0%
Prepaid card	28.1%
Payday loan	17.2%
Pawn shop	16.8%
Tax refund advance loan	12.1%
Cashed check by endorsing to someone with a bank account	11.3%
Rent-to-own store	9.8%

Almost two-thirds of respondents (61%) have borrowed money from a friend or family, and 60% of participants used gift cards as currency. Almost a quarter of participants (23%) have wired funds in the past, and the use of investment products like money markets and mutual funds is weak (12%).

Figure 5. Financial Tools Used in Lifetime	
Borrowed money from a friend or family	60.7%
Gift card	60.4%
Remittance or wire transfer	23.2%
Peer lending circle	17.2%
Investment product—money market account or mutual fund	12.0%
Cash advance service	11.8%

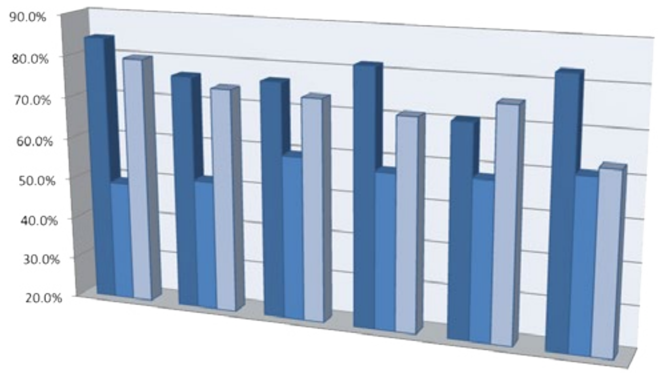
Age, Citizenship Status, and Employment

The survey results revealed interesting differences in levels of financial engagement by age, citizenship status, and employment. Moreover, the transition from residency to citizenship seemed to offer additional financial access not otherwise observed.

- **Account ownership fluctuated among age groups. Immigrant account ownership varied based on time in the country.**

While Latinos ages 18–25 had high rates of account ownership, this trend was not sustained among older population groups. The age group surveyed with the lowest bank account ownership rate was Latinos nearing retirement age, from 56–65 years old. The group with the lowest savings rate was those older than 65.

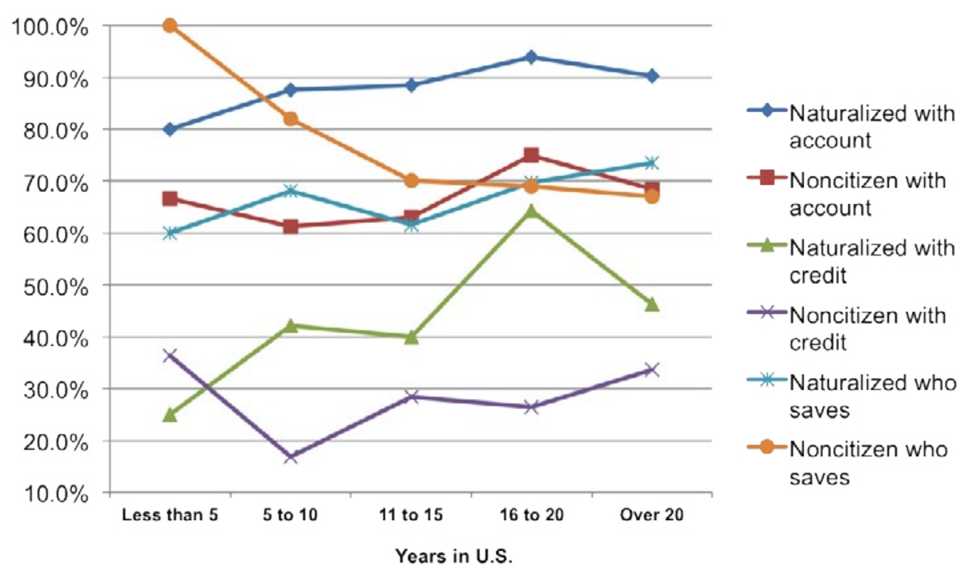
Figure 6. Financial Engagement by Age



	18–25	26–35	36–45	46–55	56–64	65+
Hold bank account	84.2%	76.4%	76.6%	81.7%	70.8%	82.9%
Use credit card	49.0%	51.5%	59.5%	57.7%	58.2%	60.9%
Save	79.7%	74.1%	73.5%	71.0%	75.4%	63.0%

For immigrants, there appeared to be a slight increase in ownership of bank accounts and credit accounts as their length of time in the country increased. However, the savings rate of immigrants who did not naturalize decreased the longer they stayed in the country.

Figure 7. Financial Engagement by Time in U.S. and Citizenship



Foreign-born citizens had higher engagement levels than similarly situated immigrants who have yet to naturalize.

When comparing the financial engagement of foreign-born citizens and immigrants who have not naturalized, immigrant citizens reported remarkably high rates of financial engagement. Naturalized citizens used bank accounts and credit cards at rates higher than both non-naturalized immigrants* and native-born citizens in the survey.

Survey responses highlight affordability hurdles to citizenship which may be preventing some immigrants from becoming citizens. Of those who reported themselves as eligible to naturalize, half reported that cost was the major reason for not applying for citizenship.

Figure 8. Financial Engagement by Citizenship Status

	Non-eligible	Eligible	Naturalized	US-born
Bank account ownership	82.6%	61.0%	89.8%	86.6%
Use credit card	58.8%	36.2%	71.1%	56.8%
Save	73.4%	72.7%	71.0%	77.9%

Participants pointed to the lack of bilingual capacity among financial institutions and burdensome identification requirements as major obstacles to building a meaningful relationship with a financial institution.

Spanish speakers were disproportionately concentrated among those without bank accounts in the survey. Half of all survey participants were primary Spanish speakers, and Spanish-speaking preferred respondents accounted for two-thirds of those without an account. Considering the data, it is understandable that language access was cited as a top reason for not having a bank account. Nearly half (45.3%) of the Spanish-speaking preferred participants who did not have an account cited the ability to communicate in a familiar language as what they were looking for in a bank. When asked to name the useful services or options they would like to see more banks and credit unions offer, a number of Spanish speakers without accounts provided feedback concerning language preference: "better services in Spanish,"* "people who speak Spanish," and "that they give information in Spanish, and tell you information very clearly."

Immigrant survey participants without an account pointed to difficulty with identification requirements as a primary reason for not getting an account. When asked to identify amenities they would like to see traditional banks or credit unions offer, one participant said, "That you could more easily open an account with only one ID necessary."* Another said, "To cash a check, or open an account, they ask for so many things, [including] a Social Security number." Non-U.S. citizens represented over half of those without an account.

The unemployed were less likely to have an account than the employed.

A significant portion of participants (17.2%) was jobless when they took the survey. Nearly 40% of the

* Non-naturalized immigrants include both survey participants who are "eligible" for naturalization and those who are "non-eligible" for naturalization. Survey participants self-reported their eligibility for citizenship.

* Responses translated from Spanish

unemployed did not hold a bank account—double the survey average and more than three times the rate for those employed part- or full-time. The employed were more than twice as likely (56.4% compared to 19.5%) to have direct deposit than the unemployed.

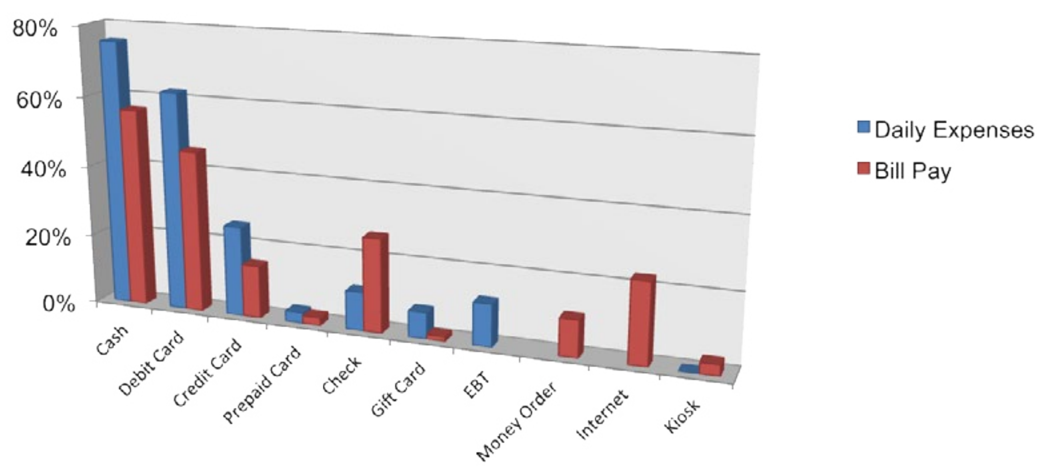
Banking Experiences and Needs
Survey participants were asked to report how they conducted routine financial transactions such as purchasing daily goods or paying for monthly bills. They were also asked what services or features they would like to see from their bank and credit union, and how those issues shaped their interaction with various financial providers. Respondents elevated the importance of customer service and a desire for specific services, the convenience and transparency of AFS providers, and the critical role of family circles in gathering information and advice.

Conducting Routine Financial Transactions
Participants tapped a variety of financial tools to pay for daily expenses such as groceries and recurring expenses such as bills. Cash was the most popular payment method overall, but particularly for those without bank accounts. Electronic Benefit Transfers (EBT) or other public benefits were used heavily by the unemployed.

- **Cash remains popular, but respondents more often combined many different payment methods.**

Cash was used most often in combination with a debit card for both daily expenses and monthly bill pay. The use of credit was more pronounced for daily expenses than for bills. In bill pay, the use of checks was reported more so than credit cards, at 27% and 15%, respectively. Just under a quarter of all respondents (23%) said they used the Internet in paying their bills.

Figure 9. Payment Method for Daily Expenses and Monthly Bills



Not all options included for Daily Expenses were listed for Bill Pay.

- **The unemployed are less likely to pay for daily expenses with credit cards than those with regular employment.**

When compared to the employed, unemployed survey respondents were three times as likely to use EBT or other public benefits in combination with cash or a debit card to pay for daily expenses (24% compared to 8%). While the heavy use of EBT by those without regular employment is expected, less so is the fact that the unemployed used credit products at such a low rate. One might expect individuals without a regular paycheck to rely more heavily on credit as an income smoothing tool. However, only 18% of unemployed survey participants reported using credit to pay for daily expenses, and only 7% used credit to cover monthly bills. Compared to employed respondents, 28% use credit for daily expenses and 17% for monthly bills.

Customer Service and Consumer Inclusion

Survey respondents placed a premium on good customer service and were clear about the kinds of products and services they were seeking when deciding where to bank. When asked to rank the importance of services in deciding where to conduct banking transactions, 72% of all survey respondents reported "good customer service" as "Very Important," making it the most popular and highest-ranking decision factor.

- **Overwhelmingly, consumers are looking for a bank that offers good customer service and affordable services, more so than other features such as location and hours.**

Good customer service ranked even higher among survey participants with an account, with 85% of account holders saying it was "Very Important." As one account holder stated: "All services are important, but above all else is that they treat their clients well."* After customer service, account holders also prioritized cost and convenience. Eighty-one percent of account holders ranked accessing funds for little or no cost as a very important service.

Figure 10. Services Ranked as "Very Important," by Account Ownership

	Account	No account
Good customer service	85%	71%
Withdraw cash from ATMs around the country for little or no cost	81%	67%
Pay bills electronically for little or no cost	72%	60%
Direct deposit paychecks into a bank account	70%	54%
Cash checks quickly and with reasonable fees	69%	63%
Advice on financial goals	56%	55%
Provide emergency credit	53%	58%
Bundle all bank services	49%	42%
Ability to write paper checks	48%	47%
Provide low-cost money orders	46%	48%
Pay bills at branch location	45%	48%
Send money to home country affordably	39%	44%

* Response translated from Spanish

The location of financial services was ranked as "Very Important" by 46% of those surveyed, and fees associated with an account was marked thus by nearly the same amount (44%) of participants. These were among the top factors identified by account holders as having an influence on where they banked. Non-account holders were also vocal about the importance of customer service in influencing whether to approach a bank. One participant without an account said he preferred "good customer service where they explain to me step-by-step how to manage my account."* Costs associated with accounts were also identified as an issue. One non-account holder who previously had an account explained, "I used to have one but I didn't like it. I had to monitor it closely, and if I didn't deposit funds I got charged."

Figure 11. Top Factors in Deciding Where to Bank, by Account Ownership

	Account	No Account
Distance from home or work	46%	24%
Account fees and requirements	44%	23%
Number of branches or ATMs	41%	18%
I feel welcome	31%	26%
Customer service	29%	17%
Ability to communicate in Spanish	23%	30%
Branch hours	19%	14%
Good interest rate on car or home loan	19%	17%
Ability to get cash quickly	16%	19%
Availability of credit cards	9%	10%
Word of mouth	4%	4%
Marketing/advertising is appealing	2%	1%

- **The unemployed were particularly sensitive to account costs and needed affordable access to cash.**

Nearly half (45%) of unemployed respondents, account holders or not, indicated that account fees and minimum balance requirement were the top factors used to determine where to bank. Particularly for unemployed account holders, the emphasis was more pronounced with 58% indicating this as the top factor, while nearly one-quarter (23%) of the unemployed who did not own an account agreed. When asked to rank key services, the unemployed emphasized the customer experience and the ability to access their funds conveniently.

Figure 12. Services Ranked as "Very Important" by the Unemployed, by Account Ownership

	All	Account	No Account
Account fees and requirements	45%	58%	23%
Distance from home or work	37%	46%	20%
Customer service	29%	36%	18%
Number of branches or ATMs	28%	32%	20%
Good interest rates on car or home loan	23%	26%	18%
I feel welcome	21%	24%	16%
Branch hours	19%	20%	18%

Continues in next page

* Response translated from Spanish

Figure 12. Services Ranked as "Very Important" by the Unemployed, by Account Ownership			
	All	**Account**	**No Account**
Ability to communicate in Spanish	16%	14%	18%
Ability to get cash quickly	13%	9%	20%
Availability of credit cards	11%	9%	14%
Word of mouth	4%	4%	5%
Marketing/advertising is appealing	2%	3%	0%

- **Few surveyed were prepared for an unexpected expense and many reported trouble paying their bills in the previous year. Participants expect to lean heavily on family and friends to borrow funds should the need arise.**

Two in five survey respondents (43%) reported needing emergency cash in the last year and a third of respondents (34%) had trouble paying their monthly bills. The most popular method for borrowing funds for an unexpected expense was friends or family members, with 51% expecting to pay back friends or family. Pawn shops outpaced payday lenders as a source of emergency funds, especially for noncitizens and the unemployed.

Figure 13. Source of Emergency Funds, by Citizenship and Employment				
	Total	Citizen	Non-Citizen	Unemployed
Ask a friend or family member–pay them back	51%	58%	43%	45%
Pawn shop	27%	27%	29%	38%
Borrow from a retirement savings account	25%	28%	19%	23%
Ask a friend or family member–do not pay back	22%	21%	23%	34%
Credit card cash advance	22%	22%	23%	28%
Bank/collateral valuation loan	21%	22%	20%	27%
Advance pay from employer	19%	17%	21%	23%
Progreso Financiero	19%	13%	28%	23%
Payday lender	18%	16%	21%	27%
Auto title loan	16%	15%	19%	23%
I would not be able to raise the money	13%	12%	14%	16%

Use of Alternative Financial Services and Products

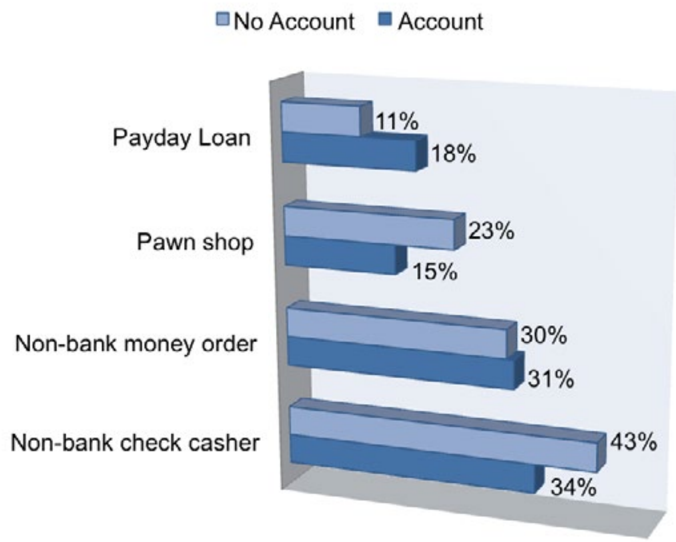
Alternative financial services (AFS), such as check cashing, payday loans, and pawn shops, can be expensive compared to similar services offered by banks or credit unions—to the extent that such services are available at mainstream institutions. Survey participants reported shopping around for financial providers and often made conscious decisions to use nonbank providers for reasons particular to their circumstances. The respondents pointed to the convenience and affordability of check cashers, a factor so influential that check cashing was a service used frequently among those with bank accounts.

- **Check cashing and money orders were the nonbank products used most frequently. Respondents pointed to convenience and pricing as top reasons for using AFS.**

The Latinos surveyed who used AFS cited ease of use and pricing as the primary benefits of these products over services they received from their bank. Among the reasons given for using AFS, one participant said it is “Easier than having to go to the bank” and another, “Sometimes it’s for the quickness.” One survey participant stated, “It simplifies the bureaucratic process.” When discussing the costs associated with the decision to use AFS, reasons included: “Because it’s comfortable for me. I don’t like having to always pay at my ATM, because sometimes they change the price,” and, “Money orders are too expensive in banks.”

Survey participants without accounts used transactional services such as check cashers frequently, while account holders tapped alternative credit providers at higher rates.

Figure 14. Use of Alternative Financial Services, by Account Ownership



Information Gathering and Advice

Many participants expressed a desire for more and better financial guidance, which they considered a valuable service to receive from their bank. In fact, receiving advice on financial goals was considered “Very Important” in deciding where to bank by 56% of bank account holders. Well over half (61%) of the Spanish-speaking preferred participants indicated receiving advice on financial goals was a very important service in banking. However, most were not receiving financial advice from a traditional financial institution. Instead, friends and family were a top source of financial information.

- **Participants most often turned to their familial networks for financial information and advice.**

Family and friends were the most popular resource survey participants used when seeking financial advice, regardless of account ownership. The overwhelming majority (73%) of respondents without an account indicated friends and family as their source of financial counsel; nearly half (44%) of those with a bank account said the same. Of those who held an account, 31% said they received financial advice from their bank or financial institution. While account holders were three times more likely to seek professional advice than non-account holders, the use of professional financial advisors was very low overall; only 16% of account holders reported using this as their source of financial advice.

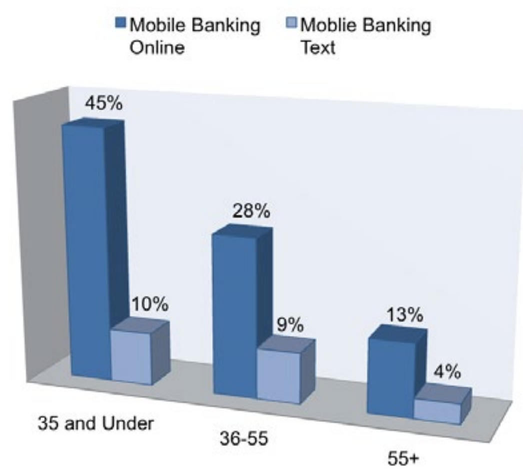
Technology in Banking

Internet use and adoption of mobile technology by the Latino community has been on the rise in recent years. Research shows that Hispanic youth use text messaging platforms and Internet connectivity via cell phone at rates that outpace their Black and White peers.[12] This survey sought to determine the extent to which Latinos were using the latest bank technology, such as online bill pay, mobile banking, and self and automated services to conduct financial transactions. Three groups emerged from the survey: full technology adopters (35.9%), testers of bank technology (38.3%), and those unfamiliar with the technology (25.8%). Full adopters tend to be younger, with ready access to the Internet. The testers were either using technology to a limited degree or were interested in trying. Finally, the unfamiliar were far less likely than their peers to have access to the Internet or have an account and were highly skeptical of banking technology.

- **Full adopters of technology tended to be younger and were pleased with the convenience offered by mobile bank access.**

Slightly more than a third (35.9%) of survey participants can be considered full adopters, largely consisting of Latinos age 35 and younger. This group was also more likely to cite the convenience of Automated Teller Machines (ATMs) as a top criterion in determining where to bank. In general, the survey found that mobile banking correlates highly with age.

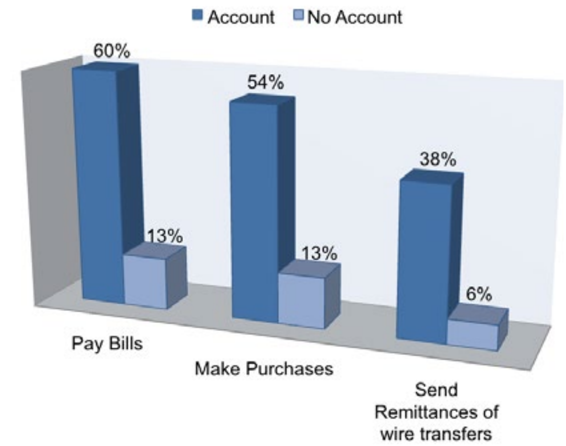
Figure 15. Mobile Banking by Age



- **Technology testers were largely account owners. Concern for the security of personal information was a major deterrent to further technology uptake.**

Most survey participants (38.3%) are considered technology testers. They were more likely to have some familiarity with online banking or expressed a willingness to try the technology if they had not already. Almost two-thirds (62.9%) of account owners expressed a preference for banking either online or via text message, compared to less than one-third (27.4%) of those without an account. Three-fourths (74.5%) of bank account owners said they have accessed their account online and 60% have paid a bill online. Over half (54%) of bank account owners have engaged in online purchasing. This engagement in online activity by bank account owners dwarfs that of non-bank owners in all categories.

Figure 16. Online Activity by Account Ownership



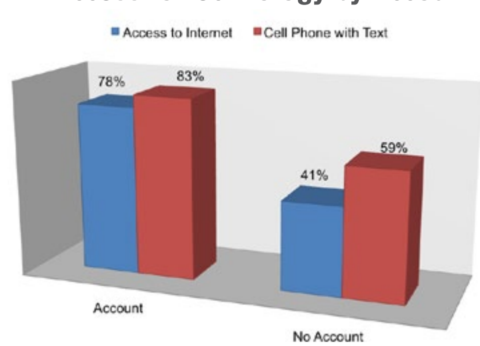
For participants who reported feeling hesitant about using online or mobile banking, their chief concern was a fear of identity theft. This was true for those who had tried at least one of the bank technologies and for those who had not. One participant said "Hackers have gotten into my accounts before;" and another, "I do not think the Internet is very safe." Yet another shared, "It depends on the validity of the website. Identity theft rates are high and our economic crisis isn't helping this crime."

- **Survey participants without a bank account were the least likely to have Internet capabilities. Their discomfort with bank technology appears to stem from a lack of access and information security concerns.**

The unfamiliar accounted for about one-quarter of survey participants and consisted mostly of those without bank accounts with lower levels of Internet access. In fact, those with accounts were far more likely to have Internet connectivity than those without accounts, 78% compared to 41% respectively. Those without an account were more likely to own a cell phone with text capability (59%) than they were to have access to the Internet, but at rates still below their peers with an account (83%).

Security of information continued to be a theme among this group when asked about using technology in banking. In response to a question that asked why they were uncomfortable using bank technology, responses included, "Because they can rob your identity,"* "Because so many times I've heard on the TV that identity theft happens frequently,"* and "Because I am not sure if it's safe." In other cases the technology itself was a hurdle; participants explained "I don't know how to use a computer,"* and "I don't like it because I don't have Internet."

Figure 17. Access to Technology by Account Ownership



* Original translated from Spanish

DISCUSSION

The NCLR California Latino Financial Access Survey findings reinforce much of what we know about those on the margins of the banking system, while also contributing new information about the experiences, wants, and needs of those who are in the lowest income bracket, are unemployed, and/or are immigrants. To our knowledge, this survey is the first that explores the role of technology in the financial lives of low-income Latinos. The majority of survey participants had bank accounts and were actively saving in some capacity. This is notable given the relatively low incomes reported. Moreover, the survey suggests consumers are showing some discernment by actively shopping for products that meet their needs, such as convenience, price, or language access. Unfortunately, the responses also indicate that few were able to have all three needs met at the same institution and many were often forced to make tradeoffs. As a result, there remains a sizeable population that is vulnerable to financial isolation and in need of affordable, responsibly priced credit and quality information on which they can base decisions.

The survey responses reveal other interesting trends related to saving habits, use of AFS, the role of citizenship, unique vulnerabilities, and the need for information. In this section we review the top themes that emerged from the findings.

The community is saving. Despite many finding it difficult to save in the down economy,[13] the majority of those surveyed report putting at least some money away on a regular basis. Most used an account while others held funds in various ways—uncashed checks, prepaid cards, or funds held by a family member. It is unclear whether the participants' savings was sufficient to keep them from turning to high cost credit since so few cited this as their source for emergency cash. Even so, the trend is encouraging and should be reinforced.

AFS are not reserved only for occasional emergencies. Respondents' routine use of alternative financial services suggests they are either smoothing monthly income, in the case of credit products, or seeking transaction services not offered by their regular bank or credit union. Even so, participants were much more likely to turn to family than a payday lender to meet an unplanned financial burden. Communities clearly need and want the services provided by the nonbank companies; yet true access remains difficult as these alternative products are often overpriced or predatory. In this regard, the nearly one in five respondents that cited Progreso Financiero as a potential source for emergency funds is promising; it suggests small installment loans are gaining attention and market share. While the share of survey participants may appear modest, it is significant because fewer than one in ten (7%) of the surveys were collected at Progreso Financiero stores.

Citizenship is an asset. Comparing non-U.S. citizens to naturalized citizens, there is a notable difference in rates of mainstream financial engagement—even when immigrants have been in the country for the same amount of time. Exactly why this is the case warrants further study, but NCLR's analysis is not the first to shed light on a meaningful difference in incomes and other economic opportunities once an individual attains citizenship.[14] An estimated 8.5 million immigrants are eligible for citizenship but have not taken all the steps necessary to naturalize.[15] Assisting greater numbers of immigrants to achieve citizenship could increase financial opportunities, but ironically many find the naturalization fees unaffordable. In this survey, half of those who said they were eligible for citizenship cited cost as the reason they had not yet naturalized. This challenge has implications for the current immigration reform debate, which poses an invaluable opportunity to boost the assets of our newest Americans.[16]

Unemployed survey participants were the most financially vulnerable. Many of the unemployed are at serious risk of dropping out of the banking system if they have not already done so. These households are highly sensitive to costs and were less likely to have access to the tools that make bank accounts affordable, such as direct deposit. The unemployed reported that they had difficulty meeting financial needs over the last year—more so than other groups in the survey—and had lower levels of saving.

Participants want financial advice, but they are not getting it. Traditional financial planning is out of reach for most participants, yet many cited financial guidance as a fundamental service they would like to see from their financial institution. In the absence of bank providers, most were turning to friends and family for advice, which may or may not be a reliable source of credible information.

The appetite for technology exists but it is not the way to "bank the unbanked." Language access and targeted marketing would be more successful strategies to bring new bank customers in the door. For those more familiar with technology, there is a real opportunity to earn the trust of customers by providing convenient and secure technology applications. People who expressed skepticism explicitly cited security concerns as a reason they were not using these platforms. A trusted ambassador, such as a bilingual bank employee, a family member, or a nonprofit partner may help to demystify the technology for those who are unfamiliar.

Good customer service matters. Consistent with other research performed by NCLR,[17] good customer service not only shaped the respondents' attitudes toward banks, but also their perception of how their bank thought of them. For example, those without an account were more likely to perceive themselves as unwelcome in the bank.

Latinos age 18–25 were highly engaged with the financial mainstream. Not only did they own accounts at higher rates, but they placed less significance on factors the rest of the survey population identified, such as customer service or language, when making banking decisions. Instead they valued convenient self-service tools such as deposit capability by phone or ATM. The high rates of engagement should be viewed with caution, however, since significant drop-off was observed. Account use declined over the next two age groups and did not pick up again until ages 46–55.

RECOMMENDATIONS

Expand citizenship and economic integration. A national program to reduce the financial burden of citizenship should include both a household savings strategy as well as access to credit and must bring partners together from across the financial industry and asset-building fields. The naturalization process can be capitalized on as an opportunity to build the financial capacity of non-U.S. citizens, many of whom are residing outside the financial mainstream and who are more likely to be financially isolated, and without access to safe and affordable credit. Partnership between financial institutions and experts in asset-building could help ensure that the need for financial tools is met for immigrants to afford citizenship, and in a way that supports positive, long-term financial behavior.

Increase account ownership through goal-based outreach and product development. The data suggest that a primary method for bringing greater numbers of Hispanic and immigrant consumers in to traditional banks and credit unions will require deeper understanding of customer needs, the delivery of products that meet those needs, and the ability to help low-income people meet their financial goals. This would require a shift for some financial institutions as service to customers of modest means is hardly seen as a significant profit center. However, investing in customers despite their limited income could benefit financial institutions in the long-term with future customer loyalty and positive referrals.

Promote personal savings and positive financial behaviors. The low savings rate among immigrants is offset by their thirst for reliable financial information and advice. Nonprofit financial coaches can facilitate by providing families with objective advice and guidance while they are making key budget decisions. These coaches can also help families of modest means save for future goals through programs such as matched savings, peer lending circles, Individual Development Accounts, and tax-time savings initiatives. By padding their personal savings accounts, families better position themselves to obtain credit on reasonable terms—if credit is needed at all—and reduce reliance on expensive and risky credit when emergencies occur.

Invest in small dollar credit solutions. Access to safe and affordable credit is critical for low-income communities. The use of costly financial alternatives may fulfill a short-term need, but it does not expand a borrower's financial capacity and can trap borrowers in a cycle of debt. Vulnerable consumers on the edge of the financial mainstream could benefit from a reasonably priced and structured loan that builds their credit and helps them manage their household budget.

Furthermore, goal-based credit products could be especially attractive. Naturalization fees are out of reach for many, but a modest credit tool could make citizenship a reality. Similarly, the passage of comprehensive immigration reform is likely to present more costs to immigrants seeking to adjust their status. For families with multiple eligible individuals, the costs will add up quickly.

Bridge the tech divide with trusted partners, bilingual communication, and reliable security and privacy protections. Policymakers must keep up with these emerging technologies in financial services and engage consumer advocates as well as industry in this arena. Greater use of mobile and online platforms in financial services may require non-traditional actors in this field to be accountable—privacy of consumer information, fraud, access to account information, and disclosure will all need to be addressed.

Financial institutions and community organizations should partner to increase awareness of data security and privacy. Greater adoption is attainable by helping consumers understand how to best safeguard their information and privacy, and what to do if they are a victim of identity theft. Moreover, product innovation aimed at bringing the unbanked population into the financial mainstream must consider the language needs of immigrants.

Sustain the interest of Latino youth in banking. The youth surveyed had high rates of financial engagement, but individuals slightly older did not. Therefore, we cannot take their sustained engagement for granted. Financial institutions need a targeted outreach strategy to engage Latino and immigrant youth. Early financial guidance delivered through high schools and colleges can help young Latinos start out on sound financial footing, especially as they consider upcoming financial decisions regarding credit cards and student loans. Goal-based savings strategies can help youth save for future purchases and begin to build assets early. These outreach efforts should capitalize on Latino youths' strong adoption of technology.

METHODOLOGY

This project used surveys and a series of interviews to gather data on various aspects of the financial lives of Latinos in California. Surveys focused on the financial tools and services used to manage daily and long-term financial needs; the role of technology in financial transactions; and the overall perceptions the community has about financial institutions. Interviews were used to find information that was reflective of common experiences Latinos had with the financial system.

Surveys were distributed through 14 locations in partnership with the NCLR California Affiliate Network, and Progreso Financiero in the Bay Area, Central Valley, and Southern California. Survey sites were selected for geographic diversity, as well as organizational staff capacity to distribute a volume of surveys to a wide community base and/or store sites with robust clientele. Surveys were distributed at Affiliate locations in Lodi, Los Angeles, Modesto, Oakland, Riverside, San Diego, Stockton, and Tracy, and Progreso Financiero stores in Bakersfield, Fresno, Long Beach, and San Jose. A total of 1,200 participants took the survey throughout the state.

The survey instrument was 55 questions that made sensitive inquiries into the participants' citizenship status, incomes, and banking habits. Prior to its distribution, the survey instrument was reviewed by a number of financial policy experts to ensure its design would capture the range of information desired. Survey participants could take the survey in either English or Spanish, self-selecting the language with which they were most comfortable. In order to solicit honest answers, it was necessary to work with community organizations trusted by the target population. NCLR Affiliates and Progreso Financiero stores have strong reputations among low-income Latinos and immigrants, allowing NCLR to reach a population that is often overlooked in other surveys.

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